ANNEXURE "10"

RAND WEST CITY
LOCAL MUNICIPALITY

RAND WEST CITY LOCAL MUNICIPALITY

FIXED ASSET AND ASSOCIATED INTANGIBLES MANAGEMENT POLICY 2017-2018

Policy: ***FIXED ASSET MANAGEMENT POLICY***	**Effective Date: 1st July 2017**
Approved: SP.10/30/05/2017	**Review Date: 30/05/2017**

Notwithstanding the review date herein, this policy shall remain effective until such time approved otherwise by council and may be reviewed on an earlier date if necessary.

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ABBREVIATIONS

AM	Asset Management
AMP	Asset Management Plan
ASB	Accounting Standards Board
CFO	Chief Financial Officer
CMIP	Comprehensive Municipal Infrastructure Plan
COGTA	Department of Co-operative Governance and Traditional Affairs
CRC	Current Replacement Cost
DRC	Depreciated Replacement Cost
EPWP	Expanded Public Work Program
EUL	Estimated Useful Life
GIAMA	Government Immovable Asset Management Act
GRAP	Standards of Generally Recognised Accounting Practice
IAMP	Infrastructure Asset Management Plan
IDP	Integrated Development Plan
IIMM	International Infrastructure Management Manual
ISO	International Standards Organisation
RWCLM	Rand West City Local Municipality
MFMA	Municipal Finance Management Act
MM	Municipal Manager
MSA	Municipal Systems Act
ODRC	Optimised Depreciated Replacement Cost
OHSA	Occupational Health and Safety Act
PPE	Property, Plant and Equipment
RUL	Remaining Useful Life
RV	Residual Value
SDBIP	Service Delivery and Budget Implementation Plan
VAT	Value Added Tax
%	Percentage

1 PURPOSE OF THIS DOCUMENT

This document indicates the policy of Rand West City Local Municipality (RWCLM) for the management of its movable and immovable Property, Plant and Equipment (PPE), investment property, intangible, biological assets and heritage assets.

The procedures required to implement this policy are provided in a separate document. The policy commits the municipality to establishing and maintaining an asset register that complies with the latest accounting standards, and managing the assets in a way that is aligned with the municipality's strategic objectives and recognised good practice.

2 SCOPE

This policy applies to all movable and immovable assets (PPE, investment property, intangible assets, biological assets and heritage assets) under the control of the municipality.

3 OBJECTIVES

The objective of this policy is for the municipality to:

- comply with prevailing accounting standards; and
- apply asset management practice in a consistent manner and in accordance with legal requirements and recognised good practice.

4 BACKGROUND

4.1 CONSTITUTIONAL AND LEGAL FRAMEWORK

The South African Constitution requires municipalities to strive, within their financial and administrative capacity, to achieve the following objectives:

- providing democratic and accountable government for local communities;
- ensuring the provision of services to communities in a sustainable manner;
- promoting social and economic development;
- promoting a safe and healthy environment; and
- encouraging the involvement of communities and community organisations in matters of local government.

The manner in which a municipality manages its PPE is central to meeting the above challenges. Accordingly, the Municipal Systems Act (MSA) specifically highlights the duty of municipalities to provide services in a manner that is sustainable, and the Municipal Finance Management Act (MFMA) requires municipalities to utilise and maintain their assets in an effective, efficient, economical and transparent manner. The MFMA specifically places responsibility for the management of municipal PPE with the Municipal Manager (MM) while the Chief Financial Officer (CFO) is responsible for maintaining the asset register.

The Occupational Health and Safety Act (OHSA) requires municipalities to provide and maintain a safe and healthy working environment, and in particular, to keep its PPE safe.

4.2 ACCOUNTING STANDARDS

The MFMA requires municipalities to comply with the Standards of Generally Recognised Accounting Practice (GRAP), in line with international practice.

As a high capacity municipality, RWCLM was required to convert to applicable standards of GRAP on 1 July 08. The Accounting Standards Board (ASB) has approved a number of Standards of GRAP. When compiling the asset register in accordance with the accounting standards, the requirements of GRAP 17 cannot be seen in isolation. Various other accounting standards impact on the recognition and measurement of assets within the municipal environment and should be taken into account during the compilation of a GRAP compliant asset register. The applicable standards of GRAP are noted in **section 9**.

4.3 MANAGEMENT OF INFRASTRUCTURE ASSETS

Effective management of infrastructure and community facilities is central to the municipality providing an acceptable standard of services to the community. Infrastructure impacts on the quality of the living environment and opportunities to prosper. Not only is there a requirement to be effective, but the manner in which the municipality discharges its responsibilities as a public entity is also important. The municipality must demonstrate good governance and customer care, and the processes adopted must be efficient and sustainable. Councillors and officials are custodians on behalf of the public of infrastructure assets, the replacement value of which amounts to several hundred million Rand.

Key themes of the latest generation of national legislation introduced relating to municipal infrastructure management include:

- long-term sustainability and risk management;
- service delivery efficiency and improvement;
- performance monitoring and accountability;
- community interaction and transparent processes;
- priority development of minimum basic services for all; and

- the provision financial support from central government in addressing the needs of the poor.

Legislation has also entrenched the Integrated Development Plan (IDP) as the principal strategic planning mechanism for municipalities. However, the IDP cannot be compiled in isolation – for the above objectives to be achieved, the IDP needs to be informed by robust, relevant and holistic information relating to the management of the municipality's infrastructure.

There is a need to direct limited resources to address the most critical needs, to achieve a balance between maintaining and renewing existing infrastructure whilst also addressing backlogs in basic services and facing on-going changes in demand. Making effective decisions on service delivery priorities requires a team effort, with inputs provided by officials from a number of departments of the municipality, including infrastructure, community services, financial planning, and corporate services.

COGTA has prepared guidelines in line with international practice, that propose that an Infrastructure Asset Management Plan (IAMP) is prepared for each sector (such as potable water, roads etc). These plans are used as inputs into a Comprehensive Municipal Infrastructure Plan (CMIP) that presents an integrated plan for the municipality covering all infrastructure. The arrangements outlined in the COGTA guidelines are further strengthened by the provision of National Treasury's Local Government Capital Asset Management Guidelines. This is in line with the practice adopted in national and provincial spheres of government in terms of the Government-wide Immovable Asset Management Act (GIAMA) and SANS 55001: Asset Management – Management Systems – Requirements.

Accordingly, the asset register adopted by a municipality must meet not only financial compliance requirements, but also set a foundation for improved infrastructure asset management practice.

Recognised good practice in the management of infrastructure assets from across the globe has been increasingly documented over the past 10 to 15 years. The International Standards Organisation (ISO) drew on these documents to establish an

international standard for infrastructure asset management (ISO 55000 series) that was published in January 2014 and this has more recently been adopted in South Africa in 2015 as the SANS 55000 series. Progressive entities are expected to consider compliance with the proposed SANS as a benchmark for practice.

5 APPROVAL AND EFFECTIVE DATE

The CFO is responsible for the submission of the Policy to Council to consider its adoption after consultation with the Municipal Manager (MM). Council shall indicate the effective date for implementation of the policy.

6 KEY RESPONSIBILITIES

Municipal Manager

The Municipal Manager is responsible for the management of the assets of the municipality, including the safeguarding and the maintenance of those assets.

The Municipal Manager shall ensure that:

- The municipality has and maintains a management, accounting and information system that accounts for the assets of the municipality;
- The municipality's assets are valued in accordance with the standard of generally recognised accounting practice;
- That the municipality has and maintains a system of internal control for the assets, including an asset register; and
- The Executive Managers and their teams comply with this policy.

As Accounting Officer of the municipality, the Municipal Manager shall be the principal custodian of the entire municipality's assets, and shall be responsible for ensuring that this policy is effectively applied on adoption by Council. To this end, the Municipal

Manager shall be responsible for the preparation, in consultation with the CFO and Executive Managers, of procedures to effectively and efficiently apply this policy.

In accordance with the MFMA, the MM of the municipality and all designated officials are accountable to him / her. The MM is therefore accountable for all transactions entered into by his / her delegates. The overall responsibility for asset management lies with the MM. However, the day to day handling of assets should be the responsibility of all officials in terms of delegated authority reduced in writing. The MM may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed.

Chief Financial Officer

The Chief Financial Officer (CFO) is responsible to the Municipal Manager to ensure that the financial investment in the municipalities' assets are safeguarded and maintained.

The CFO, as one of the Executive Managers of the municipality, shall also ensure, in exercising his financial responsibilities, that:

- Appropriate systems of financial management and internal control are established and carried out diligently;
- The financial and other resources of the municipality are utilized effectively, efficiently, economical and transparently;
- Any unauthorized, irregular or fruitless or wasteful expenditure, and losses resulting from criminal or negligent conduct, are prevented;
- All revenue due to the municipality is collected, for example rental income relating to assets;
- The systems, procedures and registers required to substantiate the financial values of the municipalities' assets are maintained to standards sufficient to satisfy the requirements of the Auditor-General;

- Financial processes are established and maintained to ensure the municipality's financial resources are optimally utilized through appropriate asset plans, budgeting, purchasing, maintenance and disposal decisions;
- The Municipal Manager is appropriately advised on the exercise of powers and duties pertaining to the financial administration of assets.
- The Executive Managers and senior management teams are appropriately advised on the exercise of their powers and duties pertaining to the financial administration of assets;
- This policy and support procedures are established, maintained and effectively communicated.

In terms of section 82 read with section 81(1)(e) of the MFMA the CFO may delegate or otherwise assign responsibility for performing these functions but will remain accountable for ensuring these activities are performed. The CFO shall be the fixed asset registrar of the municipality, and shall ensure that a complete, accurate and up-to-date computerised fixed asset register is maintained. No amendments, deletions or additions to the fixed asset register shall be made other than by the CFO or by an official acting under the written instruction of the CFO.

Executive Manager

The Executive manager is a manager as referred to in Section 57 of the Municipal Systems Act (MSA) being someone reporting directly to the Municipal Manager. The Executive manager shall ensure that:

- The municipal resources assigned to them are utilized effectively, efficiently, economically and transparently;
- Procedures are adopted and implemented in conformity with this policy to produce reliable data to be input to the municipal fixed asset register;
- Any unauthorised, irregular or fruitless or wasteful utilisation, and losses resulting from criminal or negligent conduct, are prevented;
- The asset management system, processes and controls can provide an accurate, reliable and up to date account of assets under their control;

- They are able to manage and justify that the asset plans, budgets, purchasing, maintenance and disposal decisions optimally achieve the municipality's strategic objectives; and
- Manage the asset life-cycle transactions to ensure that they comply with the plans, legislative and municipal requirements.

The Senior Managers may delegate or otherwise assign responsibility for performing these functions but they shall remain accountable for ensuring these activities are performed.

Executive Manager - Corporate

The Executive Manager - Corporate shall ensure that:

- The functionality of the asset management systems are maintained and back-ups of data are regularly made;
- The data models used are effective in informing key operational, planning and strategic planning processes, and are integrated across all departments; and
- The sector Asset Management Plans (AMPs) and Comprehensive Municipal Infrastructure Plan (CMIP) are effectively linked to the corporate risk management, performance, strategic planning, IDP and budgetary processes.

7 POLICY AMENDMENT

Changes to this document shall only be applicable if approved by Council. Any proposals in this regard shall be motivated by the CFO in consultation with the MM and respective Executive Managers. The recommendations of the CFO shall be considered for adoption by Council.

8 RELATIONSHIP WITH OTHER POLICIES

This policy, once effective, will replace the relevant pre-existing Asset Management Policy with respect to the scope of assets covered by this policy (i.e. Property, Plant and Equipment, Investment Property, and associated Intangible Assets).

This policy needs to be read in conjunction with other relevant adopted policies of the municipality, including the following:

- Accounting Policy;
- Asset Disposal Policy.
- Budget Management Policy;
- Credit Control and Debt Collection Policy;
- Insurance Policy;
- Property Rates Policy;
- Supply Chain Management Policy; and
- Indigent Management Policy

9 REFERENCES

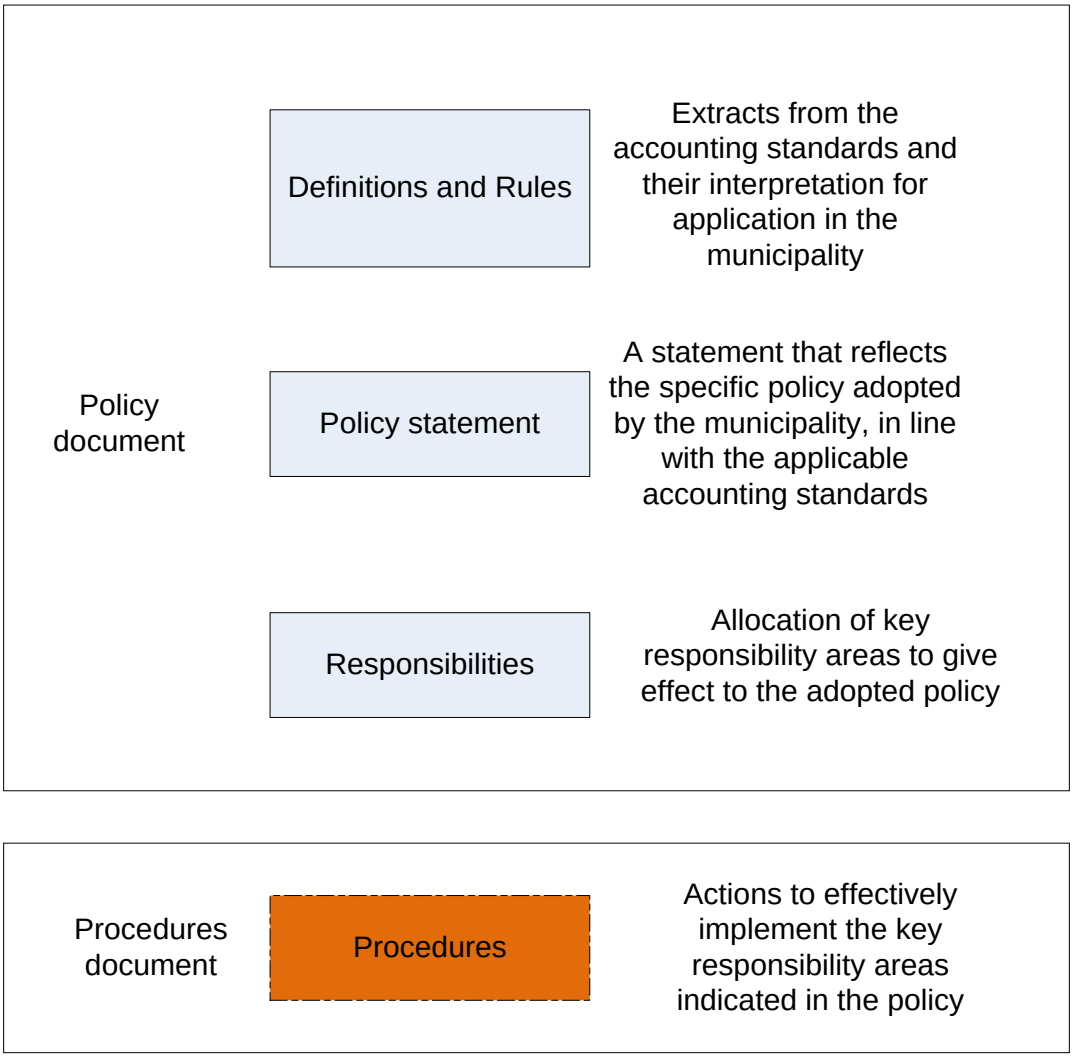
The following references were observed in compiling this document:

- Asset Management Framework, National Treasury, 2004
- Guidelines for Infrastructure Asset Management in Local Government, Department of Provincial and Local Government, 2006
- Municipal Finance Management Act, 2003
- Disaster Management Act, 2002
- Municipal Systems Act, 2000
- Municipal Structures Act, 1998
- MFMA Circular 18 & 44
- Local Government Capital Asset Management Guidelines, National Treasury, 2008
- Government Gazettes (30013 & 31021)
- Generally Recognised Accounting Practice as issued by the Accounting Standards Board (1-14, 16, 17, 19, 21, 23-27, 31 and 100-104)
- Interpretations of the standards of GRAP issued by the Accounting Standards Board (ASB) (IGRAP 1- 17)
- Directives issued by the ASB
- Municipal transfer and disposal regulations, Government Gazette no.31346
- Government Gazette, 30 May 2005, No. 27636 on disposal management
- Accounting guideline issued by National Treasury relating to intangible assets

10 POLICY FORMAT

Figure 1 gives an overview to the format of presentation of this policy document, and how it links to a separate document that provides the procedures.

Figure 1 - Interaction between the policy and the procedures



11 POLICY FOR FIXED ASSET ACCOUNTING

11.1 RECOGNITION

(a) Definitions and rules

Asset

An asset is defined as a resource controlled by an entity as a result of past events and from which future economic benefits or service potential associated with the item will flow to the entity.

Fixed Asset

A fixed asset is an asset with an expected useful life greater than 12 months.

PPE

Property, plant and equipment are tangible assets that are held for use in the production or supply of goods or services, for rentals to others, or for administrative purposes; and are expected to be used during more than one period. This includes items necessary for environmental or safety reasons to leverage the economic benefits or service potential from other assets. Insignificant items may be aggregated. Property, plant and equipment is broken down into groups of assets of a similar nature or function in the municipality's operations for the purposes of disclosure in the financial statements.

Immovable PPE

Immovable assets are fixed structures such as buildings and roads. A plant that is built-in to the fixed structures and is an essential part of the functional performance of the primary asset is considered an immovable asset (though it may be temporarily removed for repair).

Movable PPE

Movable assets are the stock of equipment owned or leased by the municipality, such as office equipment and furniture, motor vehicles and mobile plant.

Investment property

Investment property is defined as property (land and/or a building, or part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until such time as the use of the land has been determined.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets, without physical substance. Examples are licenses/ rights, (such as water licenses), servitudes and software.

An asset is identifiable if it either:

(a) is separable, i.e. is capable of being separated or divided from the municipality and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, or

(b) arises from binding arrangements (including rights arising from contracts) regardless of whether those rights are transferable and separable from the municipality or from other rights and obligations...

Biological Assets

Biological assets are living animals or plants as per the definition in the GRAP on Agriculture

Capital Spares (Major Spare Parts)

Spares and materials used on a regular basis in the ordinary course of operations are usually carried as inventory (i.e. they are not usually considered fixed assets) and are expensed when consumed. However, major spares that are available for use and constitute an entire or significant portion of a component type, or a specific component, defined in the PPE asset hierarchy are considered major spare parts and are capital spare parts and are recognised as an item of PPE if they are expected to be used for more than one period or they can only be used in connection with an item of PPE.

Major inspections

A condition of continuing to operate an item of PPE may be to perform regular major inspections for faults regardless of whether parts of the item are replaced (for example, Occupational Health and Safety Act no. 85 of 1993 requires lifting equipment to be inspected once a year). When each major inspection is performed, its cost is recognised in the carrying amount of the item of PPE as a replacement if the recognition criteria are satisfied. Any remaining carrying amount of the cost of the previous inspection (as distinct from physical parts) is derecognised. This occurs regardless of whether the cost of the previous inspection was identified in the transaction in which the item was acquired or constructed. If necessary, the cost of an existing inspection component may be used to estimate the cost of a future similar inspection.

Items used irregularly

Tangible items that are used in the production or supply of goods or services on an irregular basis (such as standby equipment) are recognised as items of PPE.

Useful Life

Useful life is defined as the period over which an asset is expected to be available for use by an entity, or the number of production or similar units expected to be obtained from the asset by an entity.

Control

An item is not recognised as an asset unless the entity has the capacity to control the service potential or future economic benefit of the asset, is able to deny or regulate access of others to that benefit, and has the ability to secure the future economic benefit of that asset. Legal title and physical possession are good indicators of control but are not absolute.

Past transactions or events

Assets are only recognised from the point when some event or transaction transferred control to an entity.

Probability of the flow of benefits or service potential

The degree of certainty that any economic benefits or service potential associated with an item will flow to the municipality is based on the judgement. The Municipal Manager shall exercise such judgement on behalf of the municipality, in consultation with the CFO and respective Executive Manager.

Economic benefits

Economic benefits are derived from PPE that generate net cash inflows.

Service Potential

An asset has service potential if it has the capacity, singularly or in combination with other assets, to contribute directly or indirectly to the achievement of an objective of the municipality, such as the provision of services.

Leased assets

A lease is an agreement whereby the lessor conveys to the lessee (in this case, the municipality) the right to use an asset for an agreed period of time in return for a payment or series of payments. Leases are categorised into finance and operating leases. A finance lease is a lease that transfers substantially all the risks and rewards

incident to ownership of an asset, even though the title may not eventually be transferred (substance over form). Where the risks and rewards of ownership of the PPE are substantially transferred to the municipality, the lease is regarded as a finance lease and the asset recognised by the municipality as PPE. Where there is no substantial transfer of risks and rewards of ownership to the municipality, the lease is considered an operating lease and payments are expensed in the income statement on a systematic basis (straight line basis over the lease term).

Asset custodian

The department that controls an asset, as well as the individual (asset custodian) or post that is responsible for the operations associated with such asset in the department, is identified by the respective Executive Manager, recorded, and communicated on recognition of the asset.

Reliable measurement

Items are recognised that possess a cost or fair value that can be reliably measured in terms of this policy.

(b) Policy statement

The municipality shall recognise all assets existing at the time of adoption of this policy and the development of new, upgraded and renewed assets on an ongoing basis. Such assets shall be capitalised in compliance with prevailing accounting standards.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the recognition of existing and new immovable assets.
- Every Executive Manager shall ensure that all assets under their control are correctly recognised as assets.
- The CFO shall keep a lease register with the following minimum information: name of the lessor, description of the asset, fair value of the asset at inception of

the lease, lease commencement date, lease termination date, economic useful life of the asset, lease payments, and any restrictions in the lease agreement.

11.2 CLASSIFICATION OF ASSETS

(a) Definitions and rules

Fixed asset categories

Accounting categories relating to fixed assets are as follows:

1. Property, plant and equipment (which is broken down into groups of assets of a similar nature or function in the municipality's operations, that is shown as a single class for the purposes of disclosure in the financial statements);
2. Heritage assets;
3. Biological assets;
4. Intangible assets; and
5. Investment property.

Class of PPE

A class of PPE is defined as a group of assets of a similar nature or function in the municipality's operations. The total balance of each class of assets is disclosed in the notes to the financial statements.

PPE Asset hierarchy

An asset hierarchy is adopted for PPE which enables separate accounting of parts (or components) of the asset that are considered significant to the municipality from a financial point of view, and for other reasons determined by the municipality, including risk management (in other words, taking into account the criticality of components) and alignment with the strategy adopted by the municipality in asset renewal (for example the extent of replacement or rehabilitation at the end of life). In addition, the municipality may aggregate relatively insignificant items to be considered as one asset. The structure of the hierarchy recognises the functional relationship of assets and components.

PPE: Infrastructure

Infrastructure assets are immovable assets which are part of a network of similar assets.

PPE: Community Property

Community property is immovable assets contributing to the general well-being of the community, such as community halls and recreation facilities.

PPE: Building Property

PPE building property assets are buildings that are used for municipal operations such as administration buildings and rental stock or housing not held for capital gain.

Heritage assets

Heritage assets are assets of cultural, historic or environmental significance and are held indefinitely for the benefit of present and future generations, such as monuments, nature reserves, and works of art. Some heritage assets have more than one purpose, e.g. an historical building which, in addition to meeting the definition of a heritage asset, is also used as office accommodation. The municipality must use its judgement to make such an assessment. The asset should be accounted for as a heritage asset if, and only if, the definition of a heritage asset is met, and only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes. If a significant portion is used for production, administrative purposes or supply of services or goods, the asset shall be accounted for in accordance with the Standard of GRAP on PPE.

Biological assets

A biological asset is a living animal or plant as per the definition in the GRAP 27 on Agriculture. Biological transformation is the process of growth, degeneration, production or procreation that causes qualitative and quantitative changes in a biological asset.

Intangible assets

Intangible assets are defined as identifiable non-monetary assets without physical substance. Examples are licenses/rights, (such as water licenses), servitudes, and software.

Servitudes

Where municipalities establish servitudes as part of the registration of a township, the associated rights are granted in statute and are specifically excluded from the standard on intangible assets. Such servitudes cannot be sold, transferred, rented or exchanged freely and are not separable from the municipality. Consequently, such servitudes are not recognised in the asset register. However servitudes that are created through acquisition (including by way of expropriation or agreement) are recognised as an intangible asset at cost. The municipality may include the cost of the servitude in the cost of the PPE if it is essential to the construction or operation of the asset (such as in the case of pipes).

Investment property

Investment property is defined as property (land and/or a building, or a part thereof) held (by the owner or the lessee under a finance lease) to earn rentals or for capital appreciation, or both (rather than for use in the production or supply of goods or services or for administration purposes or sale in the ordinary course of operations). An example of investment property is office parks that are rented out. There is no asset hierarchy for investment property; each functional item will be individually recorded. Land held for a currently undetermined use is recognised as investment property until the use of the land has been determined.

A property is only classified as investment property if the main purpose and most significant use of the property is to earn rental or for capital appreciation. For example, when a municipality owns a building, mainly used for the delivery of social housing but rents out a floor of the building to shops, banks and other external parties, the building should be accounted for as property, plant and equipment as its main purpose and most significant use is the provision of social services. This should be the case irrespective of whether the rental earned from the one floor of the building is significant in relation to the rental earned from the remainder of the building.

(b) Policy statement

Asset hierarchies shall be adopted for each of the PPE asset classes, separately identifying items of PPE at component level that are significant from a financial perspective (material effect on depreciation) or strategic perspective (for risk management or asset replacement strategies / or separate significant components), and conversely, where applicable, grouping items that are relatively insignificant. Investment Property and Intangible assets are not required to be componentised.

PPE shall be disclosed in the financial statements at the category level.

A committee to be nominated by Council will consider the recognition of assets as heritage assets and motivate their recommendation for adoption by Council.

Annexure A indicates the hierarchy structure for immovable assets.

(c) Responsibilities

- The CFO shall ensure that the classification of assets adopted by the municipality complies with the statutory requirements.
- The CFO shall consult with the Executive Manager responsible for PPE to determine an effective and appropriate asset hierarchy for each asset class of PPE to component level and record such in the AM procedures document.
- Every Executive Manager shall ensure that all assets under their control are classified correctly.
- Every Executive Manager shall advise the CFO when assets should be re-classified.

11.3 IDENTIFICATION

(a) Definitions and rules

Immovable Asset coding

An asset coding system is the means by which the municipality is able to uniquely identify each immovable asset (at the lowest level in the adopted asset hierarchy) in order to ensure that it can be accounted for on an individual basis.

Barcoding system

A barcoding system will be used for movable assets as the means by which the municipality is able to uniquely identify each movable asset in order to ensure that it can be accounted for on an individual basis, which will also assist with the subsequent verification process of movable assets.

(b) Policy statement

A coding system shall be adopted and applied that will enable each immovable asset (with PPE at the lowest level in the adopted asset hierarchy) to be uniquely and readily identified. Similarly a barcoding system shall be adopted for movable assets.

(c) Responsibilities

- The Municipal Manager shall develop and implement an immovable asset coding system in consultation with the CFO and other Executive Managers to meet the policy objective.
- Executive Managers shall ensure that all the immovable assets under their control are correctly coded.
- Executive Managers shall ensure that all the movable assets under their control are correctly barcoded.

11.4 ASSET REGISTER

(a) Definitions and rules

Asset register

A fixed asset register is a database with information relating to each asset. The fixed asset register is structured in line with the adopted classification structure. The scope of data in the register is sufficient to facilitate the application of the respective accounting standards for each of the asset classes, and the strategic and operational asset management needs of the municipality.

Updating data in the asset register

The fixed asset register is updated by an Asset Management Administrator only when authorised and instructed to do so by the CFO. The Asset Management Administrator is precluded from being a custodian of any asset.

(b) Policy statement

An fixed asset register shall be established to provide the data required to apply the applicable accounting standards, as well as other data considered by the municipality to be necessary to support strategic asset management planning and operational management needs. The asset register shall be updated and reconciled to the general ledger on a regular basis, which will be reconciled to the financial statements at year end.

(c) Responsibilities

- The CFO shall define the format of the fixed asset register in consultation with the Municipal Manager and the Executive Managers, and shall ensure that the format complies with the prevailing accounting standards and disclosure requirements.
- Executive Managers shall provide the CFO with the data required to establish and update the asset register in a timely fashion.

- The CFO shall establish procedures to control the completeness and integrity of the asset register data.
- The CFO shall ensure proper application of the control procedures.

11.5 MEASUREMENT AT RECOGNITION

(a) Definitions and rules

Measurement at recognition of PPE

An item of PPE that qualifies for recognition is measured at cost. Where an asset is acquired at no or nominal cost (for example in the case of donated or developer-created assets), its cost is deemed to be its fair value at the date of acquisition. In cases where it is impracticable to establish the cost of an item of PPE, such as on recognising PPE for which there are no records, or records cannot be linked to specific assets, its cost is deemed to be its fair value.

Measurement at recognition of investment property

Investment property will be measured at cost including transaction cost at initial recognition. However, where an investment property was acquired through a non-exchange transaction (i.e. where the investment property was acquired for no or nominal value), its cost is its fair value at the date of acquisition.

Measurement at recognition of intangible assets

Intangible assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

Measurement at recognition of heritage assets

Heritage assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements as follows:

- A description of the heritage asset or class of heritage assets.
- The reason why the heritage asset or class of heritage assets could not be measured reliably.
- On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

Measurement at recognition of biological assets

Biological assets shall be measured on initial recognition and at each reporting date at its fair value less costs to sell

Fair value

Fair value is defined as the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction. Market based evidence by appraisal can be used where there is an active and liquid market for assets (for example land and some types of plant and equipment). In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach may be used. The appraisal of the fair value of assets is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification and has appropriate knowledge and experience in valuation of the respective assets. A Professional Engineer is considered to have the relevant professional qualification in order to determine the CRC and DRC of specialised buildings and infrastructure.

Costs associated with heritage assets

Heritage assets will be measured at cost at initial recognition. Where assets are acquired for no or nominal consideration, the cost is deemed to equal the fair value of the asset on the date acquired.

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

If the municipality holds an asset that might be regarded as a heritage asset but which, on initial recognition, does not meet the recognition criteria of a heritage asset because it cannot be reliably measured, relevant and useful information about it shall be disclosed in the notes to the financial statements as follows:

- A description of the heritage asset or class of heritage assets.
- The reason why the heritage asset or class of heritage assets could not be measured reliably.
- On disposal of the heritage asset or class of heritage assets, the compensation received and the amount recognised in the statement of financial performance.

Cost of an item of PPE

The capitalisation value comprises of:

(i) the purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and

(ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus

(iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

- cost of employee benefits arising directly from the construction or acquisition of the item.
- costs of site preparation;
- initial delivery and handling;

- installation and assembly costs;
- commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location);
- professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes); and
- Proper transfer taxes (in the case of all asset classes).

Costs associated with heritage assets

Costs incurred to enhance or restore a heritage asset to preserve its indefinite useful life should be capitalised as part of the cost of the asset. Such costs should be recognised in the carrying amount of the heritage asset as incurred.

Changes in the existing decommissioning or restoration cost included in the cost of an item

Most PPE in the municipal environment are considered assets in perpetuity in that they will generally be renewed or replaced at the end of their useful life. In the event that there is a statutory (and material) obligation to decommission or restore an asset at the end of its useful life (such as at a landfill site), provision has to be made for such costs. Changes in the measurement of an existing decommissioning cost or restoration cost as a result of changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, should be treated as follows:

1. If the cost model is used -
    - Changes in the liability shall be added to or deducted from the cost of the related asset.
    - If the amount deducted from the cost of the asset exceeds the carrying amount of the asset, the excess shall be recognised immediately in surplus or deficit.
    - If the adjustment results in an addition to the cost of an asset, the municipality should consider whether this is an indication that the carrying

amount may not be recoverable. In this case the municipality should test the asset for impairment.

2. If the revaluation model is used -
   - A decrease in the liability shall be credited to the revaluation surplus, except that it shall be recognised in the surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in the surplus or deficit; and
   - an increase in the liability shall be recognised in surplus or deficit, except that it shall be debited to the revaluation surplus to the extent that any credit balance may exist in the revaluation surplus in respect of asset.
   - If the decrease in liability exceeds the carrying amount that would have been recognised if the asset has been carried under the cost model, the excess shall be recognised immediately in the surplus or deficit.
   - If the change in liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation shall be taken into account in determining the amounts to be taken to surplus or deficit and net assets as discussed above. If a revaluation is necessary, all assets of that class shall be revalued.
   - The change in the revaluation surplus arising from the change in the liability shall be separately identified and disclosed in the face of the statement of changes in net assets.

Exchanged PPE assets

In cases where assets are exchanged, the cost is deemed to be the fair value of the acquired asset and the disposed asset is de-recognised. If the acquired asset is not measured at its fair value, its cost price will be the carrying amount of the asset given up.

Finance leases

At the commencement of a lease term, the municipality (the lessee) shall recognise a finance lease as an asset and liability in the statement of financial position at amounts

equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease.

The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease contract, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct cost of the lessee is added to the amount recognised as an asset.

Depreciated replacement cost

The depreciated replacement cost (DRC) approach requires information on the expected useful life (EUL), residual value (RV), current replacement cost (CRC), and remaining useful life (RUL) of each of the asset components. The CRC is the product of a unit rate and the extent of the component and represents the cost of replacing the asset, and in cases where the existing asset is obsolete, the replacement with a modern equivalent. The depreciable portion of an asset is determined by subtracting the residual value from the CRC. The depreciated replacement cost (DRC) is established by proportionately reducing the depreciable portion based on the fraction of the remaining useful life over the expected useful life.

Accordingly, the following formula is used:

DRC = ((CRC – RV) x RUL/EUL) + RV

Replacement costs are "brown field", reflecting cost variances over and above "green-field" modifications. Capital unit costs vary from site to site and provision is made for site specific influencing factors (e.g. topography). Capital unit costs are also influenced by macro-economic driving forces such as "supply-and-demand", economy of scale, financial markets and availability of contractors, and the impact of these factors are reflected in the capital unit rates where applicable. Adjustments of rates for escalation to the valuation date are applied.

The expected useful life and residual values are estimates informed by industry norms and actual asset performance in the municipality and at other similar municipalities. The remaining useful life is informed by the expected useful life, the age of the

component since becoming available for use, its condition, and any committed plans for replacement, rehabilitation, upgrading or de-commissioning.

Cost of an item of PPE

The capitalisation value comprises of:

(i) the purchase price including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and
(ii) any directly attributable costs necessary to bring the asset to its location and condition necessary for it to be operating in the manner intended by the municipality, plus
(iii) an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

VAT is excluded (unless the municipality is not allowed to claim input VAT paid on purchase of such assets - in such an instance, the municipality should capitalise the cost of the asset together with VAT).

Directly attributable costs

Directly attributable costs are defined as:

- cost of employee benefits arising directly from the construction or acquisition of the item;
- costs of site preparation;
- initial delivery and handling;
- installation and assembly costs;
- commissioning (cost of testing the asset to see if the asset is functioning properly, after deducting the net proceeds from selling any item produced while bringing the asset to its current condition and location);
- professional fees (for example associated with design fees, supervision, and environmental impact assessments) (in the case of all asset classes); and
- Proper transfer taxes (in the case of all asset classes).

Self-constructed PPE

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality. All assets that can be classified as PPE and that are constructed by the municipality should be recorded in the asset register and each component that is part of this PPE should be depreciated over its estimated useful life for that category of asset.

Proper records are kept such that all costs associated with the construction of these assets are completely and accurately accounted for as capital under construction, and upon completion of the asset, all costs (both direct and indirect) associated with the construction of the asset are aggregated and capitalised in the asset register.

Construction of future investment property

If property is developed for future use as an investment property, such property shall in every respect be accounted for as investment property.

Borrowing costs

Borrowing costs are interest and other costs incurred by the municipality from borrowed funds. The items that are classified as borrowing costs include interest on bank overdrafts and short-term and long-term borrowings, amortisation of premiums or discounts associated with such borrowings, amortisation of ancillary costs incurred in connection with the arrangement of borrowings; finance charges in respect of finance leases and foreign exchange differences arising from foreign currency borrowings when these are regarded as an adjustment to interest costs. An entity has the option to recognise all borrowing costs as an expense in the period in which they are incurred, or if the allowed alternative is selected, an entity shall recognise borrowing costs that are directly attributable to the acquisition, construction, or production of a qualifying asset as part of the cost of that asset. Where an entity adopts the allowed alternative treatment, that treatment shall be applied consistently to all borrowing costs that are directly attributable to the acquisition, construction, or production of all qualifying assets of the entity.

Deferred payment

The cost of an asset is the cash equivalent at the recognition date. If the payment of the cost price is deferred beyond normal credit terms, the difference between the cash

price equivalent (the total cost price is discounted to the asset's present value as at the transaction date) and the total payment is recognised as an interest expense over the period of credit unless such interest is recognised in the carrying value of the asset in accordance with the Standard on Borrowing Costs, GRAP 5.

(b) Policy statement

PPE, heritage assets, intangible assets and investment property that qualify for recognition shall be capitalised at cost. Interest on deferred payments will be capitalised to the extent to which it relates to a qualifying asset.

In cases where complete cost data is not available or cannot be reliably linked to specific assets:

- Where PPE assets were acquired before the GRAP implementation date or where they were acquired through a non-exchange transaction, the fair value of PPE infrastructure, community facilities and building property shall be adopted on the basis of depreciated replacement cost.;
- If the cost of heritage assets cannot be measured reliably, this shall be disclosed in the notes to the financial statements together with a description of the nature of the asset; and
- Investment property and intangible assets shall be measured at fair value on the date of acquisition. If no fair value can be allocated to the intangible asset, the asset will not be recognised as an asset.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the capitalisation of assets on recognition.
- Every Executive Manager shall ensure that all assets under their control are correctly capitalised.
- Every Executive Manager shall advise the CFO of any deferred payments from the municipality, providing the relevant details of such.

11.6 MEASUREMENT AFTER RECOGNITION

(a) Definitions and rules

Options

Accounting standards allow measurement after recognition on fixed assets as follows:

- Immovable PPE , heritage assets and intangible assets: on either a cost or revaluation model; and
- Investment Property: either cost model or the fair value model.

Different models can be applied, providing the treatment is consistent per asset class.

Cost model

When the cost model is adopted, an asset is carried after recognition at its cost less any accumulated depreciation and any accumulated impairment losses.

Revaluation model

When the revaluation model is adopted an asset is carried after recognition at a re-valued amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. When revaluations are conducted, the entire class of assets should be re-valued.

If the carrying amount of an asset is increased as a result of a revaluation, the increase shall be credited directly to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

If the carrying amount of an asset is decreased as a result of a revaluation, the decrease shall be recognised in surplus or deficit. However, the decrease shall be debited directly in net assets to the extent of any credit balance existing in the

revaluation surplus in respect of that asset. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

When an asset is revalued, any accumulated depreciation at the date of the revaluation is treated in one of the following ways:

- Restated proportionately with the change in the gross carrying amount of the asset after revaluation equals its revalued amount. This method is often used when an asset is revalued by means of applying an index to its depreciated replacement cost.
- Eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

The revaluation surplus is transferred to the Accumulated Surplus / (Deficits) account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question may be transferred from the Revaluation Reserve to the municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year.

Investment property

When the fair value model is adopted, all investment property should be measured at its fair value except when the fair value cannot be determined reliably on a continuing basis. The gain or loss from the change in fair value of investment property shall be included in the surplus or deficit for the period in which it arises. The fair value of the investment property shall reflect market conditions at the reporting date. Investment property shall be valued on an annual basis. All fair value adjustments shall be included in the surplus or deficit for the financial year. If a municipality selects the cost model to measure all of its investment property, it does so in accordance with the Standard of GRAP on Property, Plant and Equipment, i.e., at cost less any accumulated depreciation and any accumulated impairment losses. **Investment properties registered in the name of Rand West City Local Municipality in Deeds Office however the municipality does not have control over those properties shall not**

be recognise as Investment properties in the municipality Investment properties register, results being the substance over form as per the Accounting standards.

Statutory inspections

The cost of a statutory inspection that is required for the municipality to continue to operate PPE is recognised at the time the cost is incurred, and any previous statutory inspection cost is de-recognised.

Major inspection

Major inspections will be recognised at the value of the major inspection

Expenses to be capitalised

Expenses incurred in the enhancement of PPE (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of PPE are capitalised. Such expenses are recognised once the municipality has beneficial use of the asset (be it new, upgraded, and/or renewed) – prior to this, the expenses are recorded as work-in-progress. Expenses incurred in the maintenance or repair (reinstatement) of PPE that ensures that the useful operating life of the asset is attained, are considered as operating expenses and are not capitalised, irrespective of the quantum of the expenses concerned.

Spares

The location of capital spares shall be amended once they are placed in service, and re-classified to the applicable PPE asset sub-category.

(b) Policy statement

Measurement after recognition shall be on the following basis:-

- PPE: cost model.
- Heritage assets: cost model.
- Investment property: fair value model.
- Intangible assets: cost model.
- Biological assets: fair value less cost to sell.

Changes in asset value as a result of revaluation shall be reflected in a Revaluation Reserve.

(c) Responsibilities

- The CFO, in consultation with the Municipal Manager and Executive Managers, shall determine effective procedures for the ongoing capitalisation of fixed assets after recognition.
- Every Executive Manager shall ensure that all capital expenses associated with PPE under their control are correctly capitalised.
- Every Executive Manager shall ensure that revaluations and fair value adjustments are conducted where applicable to infrastructure under their control.

11.7 DEPRECIATION

(a) Definition and rules

Depreciation

Depreciation is the systematic allocation of the depreciable amount of an asset over its remaining useful life. The amortisation of intangible assets is identical.

Land and servitudes are considered to have unlimited life; therefore they are not depreciated. Heritage assets and investment property are also not depreciated.

Depreciable amount

The depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Residual value

The residual value is the estimated amount that the municipality would currently obtain from disposal of the asset after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

The residual values of assets are indicated in **Annexure B** in the form of a percentage of the take-on cost. In the case of assets measured after recognition on the cost model, the percentage is of the initial cost of acquisition. In the case of assets measured after recognition on the revaluation model, the percentage is of the revalued cost.

Intangible assets with an indefinite useful life

An intangible asset with an indefinite useful life will not be amortised. Impairment testing shall be performed on these assets on an annual basis and whenever there is an indication that the assets might be impaired, comparing its recoverable amount with its carrying amount.

Depreciation method

Depreciation of PPE is applied at the component level. A range of depreciation methods exist and can be selected to model the consumption of service potential or economic benefit (for example the straight line method, diminishing amount method, fixed percentage on reducing balance method, sum of the year digits method, production unit method). The approach used should reflect the consumption of future economic benefits or service potential, and should be reviewed annually where there has been a change in the pattern of consumption.

Remaining useful life

The remaining useful life of a depreciable PPE asset is the time remaining until an asset ceases to provide the required standard of performance or economic usefulness.

The remaining useful life of all depreciable PPE assets at initial recognition is the same as the expected useful life indicated in **Annexure B**. These figures have been established using available information on industry norms, experience of local influencing factors (such as climate, geotechnical conditions, and operating conditions), the life-cycle strategy of the municipality, potential technical obsolescence, and any legal limits on the use of the assets.

Annual review of remaining useful life

The remaining useful lives of depreciable PPE are reviewed every year at the reporting date. Changes may be required as a result of new, updated or more reliable information being available. Changes may also be required as a result of impairments (as contemplated in **Section 11.8** of this policy). Depreciation charges in the current and future reporting periods are adjusted accordingly, and are accounted for as a change in an accounting estimate.

Depreciation charge

Depreciation starts once an asset is available for use, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation of an assets ceases at the date the asset is derecognised.

Depreciation is initially calculated from the day when an item of PPE is acquired or – in the case of construction works and plant and machinery – the day in which the asset is available for use, until the end of the calendar month concerned. Thereafter, depreciation charges are calculated monthly.

Carrying amount

The carrying amount is the cost price/ fair value amount after deducting any accumulated depreciation and accumulated impairment losses.

Capital spares

The production unit method of depreciation is applied to capital spares while in stores as this best reflects the pattern of use. As capital spares are put into use they will be reclassified to the appropriate asset class and deprecated accordingly.

Finance lease

Depreciable assets financed through a finance lease will give rise to a depreciation expense and finance cost which will occur for each accounting period. The depreciation policy for depreciable leased assets shall be consistent with the policy of depreciable owned assets, and the depreciation recognised shall be calculated in accordance with the Standard on Property, Plant and Equipment, GRAP 17. If there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term, the asset shall be fully depreciated over the shorter of the lease term and

its useful life. If there is certainty that the municipality will obtain ownership by the end of the lease term, the asset will be fully depreciated over the asset's useful life.

(b) Policy statement

All PPE, except land and heritage assets, shall be depreciated over their remaining useful lives. All intangible assets, other than intangibles with an indefinite useful life, shall be amortised over their remaining useful lives. Capital spares held in storage will be depreciated using the unit of production method. The method of depreciation shall be reviewed on an annual basis, though the straight line basis shall be used in all cases except capital spares (for which the production method will be used) unless Council determines otherwise. Servitudes and Investment Property will not be depreciated. The existence, remaining useful lives and residual values of fixed assets shall also be reviewed at each reporting date.

Depreciation or amortisation is initially calculated from the day when a fixed asset is acquired or – in the case of construction works and plant and machinery – the day in which the fixed asset is available for use.

(c) Responsibilities

- The Executive Manager shall ensure that a budgetary provision is made for the depreciation of the PPE under their control in the ensuing financial year, in consultation with the CFO.
- The CFO shall indicate a fixed annual date for the review of the remaining useful life of PPE under the control of the respective Executive Managers.
- Every Executive Manager shall annually review the expected useful life and residual values stated in **Annexures B and C** and the depreciation method of PPE that are under their control and motivate to the Municipal Manager and CFO any adjustments if, in the judgement of the Executive manager, they are not

considered appropriate. Changes should not be made on a continuous basis because the accounting principle of consistency would be violated.

- The CFO shall report changes made to the remaining useful life of PPE in the asset register to the Municipal Manager and Council.
- The CFO shall ensure that depreciation charges are debited on a monthly basis and that the fixed asset register is reconciled with the general ledger.

11.8 IMPAIRMENT

(a) Definition and rules

Impairment

Impairment is defined as the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation.

Indications of impairment

The municipality must review assets for impairment when one of the indicators below occurs or at least at the end of each reporting period. In assessing whether there is any indication that an asset may be impaired, an entity shall consider as a minimum the following indicators:

I. External sources of information:
   - decline or cessation in demand;
   - Significant long-term changes in the technological, legal or government policy environment;
   - the carrying amount of the net assets of the entity is more than its market capitalisation; or

- market interest rates have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.
- a halt in construction could indicate an impairment. Where construction is delayed or postponed to a specific date in the future, the project may be treated as work in progress and not considered as halted.

II. Internal sources of information:

- evidence of physical damage;
- evidence of obsolescence;
- significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or a manner in which, an asset is used or is expected to be used, including an asset becoming idle, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite;
- cash flow for acquiring an asset or maintenance cost thereafter is higher than originally budgeted;
- the actual net cash flow or operating profit or loss flowing from an asset are significantly worse than those budgeted;
- a significant decline in budgeted net cash flow or operating profit, or a significant increase in the budget loss, flowing from the asset; or
- operating losses or net cash outflows for the asset, when current period amounts are aggregated with budgeted amounts for the future.

III. Other indications, such as loss of market value.

Impairment of projects under construction

In assessing whether a halt in construction would trigger an impairment test, it should be considered whether construction has simply been delayed or postponed, whether the intention to resume construction in the near future or whether the construction work will not be completed in the foreseeable future. Where construction is delayed or postponed to a specific future date, the project may be treated as work in progress and is not considered as halted.

Intangible assets

The municipality must test all intangible assets associated with PPE not yet available for use or which have an indefinite useful life for impairment. This impairment test may be performed at any time during the reporting period provided it is performed at the same time every year.

The most recent detailed calculation of such an asset's recoverable service amount made in a preceding period may be used in the impairment test for that asset in the current period, provided all of the following criteria are met:

- the most recent recoverable service amount calculation resulted in an amount that exceeded the asset's carrying amount by a substantial margin; and
- based on an analysis of events that have occurred and circumstances that have changed since the most recent recoverable service amount calculation, the likelihood that a current recoverable service amount determination would be less than the asset's carrying amount is remote.

Investment property on the fair value model

Investment property that is measured at fair value is specifically excluded from the scope of GRAP 21 and GRAP 26 (impairment standards). Any impairment would be reflected in the annual review of fair value.

Recoverable amount

The events and circumstances in each instance must be recorded. Where there are indications of impairment, the municipality must estimate the recoverable service amount of the asset and consider adjustment of the remaining useful life, residual value, and method of depreciation.

Impairment loss

An impairment loss of a non-cash-generating unit or asset is defined as the amount by which the carrying amount of an asset exceeds its recoverable service amount. The recoverable service amount is the higher of the fair value less costs to sell and its value in use.

An impairment loss of a cash-generating unit (smallest group of assets that generate cash inflows) or asset is the amount by which the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of the fair value less costs to sell and its value in use.

Non-cash-generating units

Non-cash-generating units are those assets (or group of assets) that are not managed with the objective of generating a commercial return. This would typically apply to assets providing goods or services for community or social benefit. The recoverable amount is the higher of the asset's fair value less cost to sell and its value in use. It may be possible to determine the fair value even if the asset is not traded in an active market. If there is no binding sales agreement or active market for an asset, the fair value less cost to sell is based on the best information available to reflect the amount that an entity could obtain. However, sometimes it will not be possible to determine the fair value less cost to sell because there is no basis for making reliable estimates of the amount obtainable. For non-cash generating assets which are managed on an ongoing basis to provide specialised services or public goods to the community, the value in use of the assets is likely to be greater than the fair value less cost to sell. In such cases the municipality may use the asset's value in use as its recoverable service amount. The value in use of a non-cash generating unit/asset is defined as the present value of the asset's remaining service potential. This can be determined using any of the following approaches:

- the Depreciated Replacement Cost (DRC) approach (and where the asset has enduring and material over-capacity, for example in cases where there has been a decline in demand, the Optimised Depreciated Replacement Cost (ODRC) approach may be used);

- the restoration cost approach (the Depreciated Replacement Cost less cost of restoration) – usually used in cases where there has been physical damage; or
- The service unit's approach (which could be used for example where a production unit's model of depreciation is used).

Where the present value of an asset's remaining service potential (determined as indicated above) exceeds the carrying value, the asset is not impaired – this will normally be the case unless there has been a significant event.

Cash-generating unit

Cash-generating units are those assets managed with the primary objective of generating a return. An asset generates a commercial return when it is deployed in a manner consistent with that adopted by a profit-oriented entity. Managing an asset to generate a "commercial return" indicates that an entity intends to generate positive cash inflows from the asset (or from part of the cash-generating unit of which the asset is a part) and earn a commercial return that reflects the risk involved in managing the asset. The best evidence of an asset's fair value less costs to sell is a price in a binding sale agreement in an arm's length transaction. If there is no binding sale agreement but an asset is traded in an active market, fair value is the asset's market price. If there is no binding sale agreement or active market for an asset, fair value less costs to sell is based on the best information available to reflect the amount that the municipality could obtain, at the reporting date, from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties. In the case of specialised buildings (such as community buildings) and infrastructure where there is no such active and liquid market, a depreciated replacement cost (DRC) approach is generally used to identify the fair value. Costs to sell are the costs directly attributable to the disposal of the asset (for example agents fees, legal costs), excluding finance costs and income tax expenses. The value in use is determined by estimating the future cash inflows and outflows from the continuing use of the asset and net cash flows to be received or (paid) for the disposal of the assets at the end of its useful life, including factors to reflect risk in the respective cash-flows and the time value of money.

Judgement

The extent to which the asset is managed with the objective of providing a commercial return needs to be considered to determine whether the asset is a cash generating or non-cash generating asset. An asset may be managed with the objective of generating a commercial return even though it does not meet that objective during a particular reporting period. Conversely, an asset may be a non-cash-generating asset even though it may be breaking even or generating a commercial return during a particular reporting period. In some cases it may not be clear whether the objective of managing an asset is to generate a commercial return. In such cases it is necessary to evaluate the significance of the cash flows. It may be difficult to determine whether the extent to which the asset generates cash flows is so significant that the asset is a non-cash-generating- or a cash-generating asset. Judgement is needed in these circumstances.

Recognition of impairment

The impairment loss is recognised as an expense when incurred (unless the asset is carried at a re-valued amount, in which case the impairment is carried as a decrease in the Revaluation Reserve, to the extent that such reserve exists). After the recognition of an impairment loss, the depreciation charge for the asset is adjusted for future periods to allocate the asset's revised carrying amount, less its residual value (if any), on a systematic basis over its remaining useful life.

When no future economic benefit is likely to flow from an asset, it is derecognised and the carrying amount of the asset at the time of de-recognition, less any economic benefit from the de-recognition of the asset, is debited to the Statement of Financial Performance as a "Loss on Disposal of Asset".

In the event of compensation received for damages to an item of PPE, the compensation is considered as the asset's ability to generate income and is disclosed under Sundry Revenue; and the asset is impaired/ de-recognised.

Reversing an impairment loss

The municipality must assess each year from the sources of information indicated above whether there is any indication that an impairment loss recognised in previous years may no longer exist or may have decreased. In such cases, the carrying amount is increased to its recoverable amount (providing that it does not exceed the carrying

amount that would have been determined had no impairment loss been recognised in prior periods). Any reversal of an impairment loss is recognised as a credit in surplus or deficit.

(b) Policy statement

The municipality considers itself an entity whose objective is to provide goods and services for community or social benefit, and where positive cash flows are generated (such as from sale of trading services such as water services), these are with the view to support the primary objective rather than for financial return to equity holders and generally do not reflect the risks involved with managing the assets. Consequently the default impairment treatment for the PPE and associated intangible assets of the municipality is that of non-cash generating assets.

In cases where it can be reliably demonstrated that an asset is managed with the objective of generating a commercial return (that it is deployed in a manner consistent with that adopted by a profit oriented entity, that the municipality intends to generate positive cash flows from the asset and earns a return that reflects the risk involved in managing the asset), the municipality applies the impairment treatment for cash-generating assets. The municipality will develop criteria so that it can exercise that judgement consistently in accordance with the definition of cash-generating assets.

Impairment of assets shall be recognised as an expense in the Statement of Financial Performance when it occurs. Ad-hoc impairment shall be identified as part of normal operational management as well as scheduled annual inspections of the assets.

(c) Responsibilities

- The CFO shall indicate a fixed annual date for the review of any impairment that may have occurred on assets under the control of the respective Executive Managers.
- The Executive Managers shall review any impairment on the PPE under their control at the annual review date, and from time to time as a result of any events that come to their attention that may have a material negative effect on the

performance of these assets. The Executive Manager shall motivate to the CFO proposed changes to the performance of such assets and the necessary impairments that needs to be recognised on such assets.

- The Executive Manager should evaluate all PPE for impairment, taking into consideration any discussions with the Senior Accountants and Operating Managers.
- The Asset register administrator should update the fixed asset register with the information received, relating to the impairment, from the financial management system where the impairment journals have been processed.
- The CFO shall report changes made to the carrying values of these assets in the asset register to the Municipal Manager and Council.

11.9 DE-RECOGNITION

(a) Definition and rules

Disposal

"Disposal" in relation to a capital asset, includes -

- the demolition, dismantling or destruction of the capital asset; or
- any other process applied to a capital asset which results in loss of ownership of the capital asset otherwise than by way of transfer of ownership;

Exempt assets

Capital assets transferred to another municipality or to a municipal entity or to a national or provincial organ of state in circumstances and in respect of categories of assets approved by the National Treasury, provided that such transfers are in accordance with a prescribed framework in terms of the Municipal Asset Transfer Regulations.

Non-exempt assets

Assets other than exempt assets.

De-recognition

Assets are derecognised on disposal (including disposal through a non-exchange transaction) or when no future economic benefits or service potential are expected from its use or disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled.

The carrying amount of the asset and the net disposal proceeds (or cost of de-commissioning and/or disposal of the asset) shall b

PPE that is associated with the provision of basic services cannot be disposed without the approval of Council.

Government Gazette no.31346, Municipal asset transfer regulations, sets out the regulations regarding municipal asset transfers and disposals, for example type of assets that need approval to be disposed or transferred, timeframes, possible public participation requirements, considerations in approving the transfer or disposal and Council approval. Read in conjunction with the Municipal Finance Management Act (MFMA) it is clear that a municipality may not transfer ownership as a result of a sale or other transaction or otherwise permanently dispose of a capital asset needed to provide the minimum level of basic municipal services unless that transfer is to an organ of state, and the following conditions must be met:

- Ownership in the capital asset (including replacements, upgrading and improvements made by the organ of state) must immediately revert to the municipality should the organ of state for any reason cease to or is unable to render the service;
- The organ of state may not without the written approval of the municipality:
    - Transfer, dispose of or encumber the capital asset (including replacements, upgrading and improvements made by the organ of state) in any way;
    - Grant a right to another person to use, control or manage the capital asset (including replacements, upgrading and improvements made by the organ of state);
- The transfer agreement must reflect the conditions above; and

- The organ of state must demonstrate the ability to adequately maintain and safeguard the asset.

If the combined value of any non-exempt capital assets a municipality intends to transfer or dispose of in any financial year exceeds 5% of the total value of its assets, as determined from its latest available audited AFS, a public participation process must be conducted to facilitate the determinations of the municipal council, in relation to all the non-exempt capital assets proposed to be transferred or disposed of during the year.

Council may delegate the following powers and responsibilities to the MM:

- The decision as to whether the non-exempt capital asset is needed to provide a basic service;
- The power to approve in-principle that the non-exempt capital asset may be transferred or disposed of; and
- The authority to approve in-principle of the granting of a right to use a capital asset. This delegation does not extend however, to cover long-term high-value transactions.

Disposal of assets should be at fair value. If payment for the item is deferred, the consideration received is recognised initially at the cash price equivalent (the total proceeds discounted to the present value as at the transaction date). The difference between the nominal amount of the consideration and the cash price equivalent is recognised as interest revenue.

Disposal Management System

An effective system of disposal management for disposal or letting of assets, including unserviceable, redundant or obsolete assets, must be provided for in the Supply Chain Management Policy. This must specify the ways in which assets may be disposed of, including by –

- transfer the asset to another organ of state in terms of a provision of the MFMA enabling the transfer of assets;
- transferring the assets to another organ of state at market related value or, when appropriate, free of charge;

- selling the asset; or
- destroying the asset.

Property may be sold only at market related prices except when the public interest or the poor demands otherwise. When assets are traded in for other assets, the highest possible trade-in price must be negotiated.

Revaluation model

The revaluation surplus is transferred to the Accumulated Surpluses/ (Deficits) Account on de-recognition of an asset. An amount equal to the difference between the new (enhanced) depreciation expense and the depreciation expenses determined in respect of such asset before the revaluation in question may be transferred from the Revaluation Reserve to the municipality's Accumulated Surplus/Deficit Account. An adjustment of the aggregate transfer is made at the end of each financial year.

(b) Policy statement

Assets for which no future economic benefits or service potential are expected shall be identified and methods of disposal and the associated costs or income considered and approved by Council. The carrying amount of the asset shall be derecognised when no future economic benefits or service potential are expected from its use or its disposal. Where assets exist that have reached the end of their useful life yet they pose potential liabilities, the assets will not be derecognised until the obligations under the potential liabilities have been settled.

(c) Responsibilities

- Assets shall be derecognised only on the recommendation of the Executive Manager of the department controlling the asset, and with the approval of the Municipal Manager.
- Every Executive Manager shall report to the CFO on assets which such Executive Manager wishes to have derecognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services. The CFO shall consolidate all such reports, and shall

promptly make a submission to the Disposals Committee with a copy to the Municipal Manager on the PPE to be derecognised, the proposed method of disposal, and the estimated cost or income from such disposal The Disposals Committee shall consider the submission and make recommendations to the Council for adoption.

- Assets that are replaced in the nominal course of the life-cycle renewal should be derecognised and removed from the asset register.
- Every Executive manager shall report to the CFO to confirm fixed assets which such Executive manager wishes to have de-recognised, stating in full the reason for such recommendation, indicating whether or not the assets are associated with the provision of basic services. The CFO shall consolidate all such reports, and shall promptly make a submission to Council with a copy to the Municipal Manager on the fixed assets to be de-recognised, the proposed method of disposal (including, where applicable, making safe and preventing misuse), and the estimated cost or income from such disposal. Council shall consider the submission for adoption. Where disposals for the year exceed 5% of the value of the total asset value, public participation is required for consideration of Council in approving the disposal or transfer.

11.10 INSURANCE OF ASSETS

(a) Definition and rules

Insurance provides selected coverage for the accidental loss of asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury. The municipality can however elect to insure certain infrastructure risks, though approval must be obtained from the Council. The CFO must conduct a risk assessment of all assets and after considering the risks involved, report to Council, which assets must be insured. The risk assessment must be based on a loss probability analysis and if there is no capacity within the municipality to conduct the analysis, the CFO should be authorised to obtain external professional assistance.

The municipality may elect to operate a self-insurance reserve, in which case the CFO shall annually determine the premiums payable by the departments or votes after having received a list of assets and insurable values of all relevant assets from the Executive Managers concerned. This will be reflected in the accumulated surplus and will be cash backed.

Assets must be insured internally or externally and coverage must be based on the loss probability analysis. All insurance claims must be assessed by an official, charged with the responsibility for the insurance of assets, to determine whether the damage to the assets can be recovered from possible third parties involved.

If the damage was caused by an identifiable third party the CFO should compile a report advising the Municipal Manager of the facts thereof and any possible further action.

(b) Policy statement

The municipality must adhere to the disaster management plan for prevention and mitigation of disaster in order to be able to attract the disaster management contribution during or after disaster. The Council shall decide on insurance cover for assets each financial year based on the recommendation from the Municipal Manager after consultation with the CFO, and advise Council accordingly. The Municipal Manager shall ensure that all Municipal buildings are insured at least against fire and allied perils.

(c) Responsibilities

- The MM will consult with the CFO on the basis of insurance to be applied to each type of asset: either the carrying value or the replacement value of the asset concerned. The approach shall take due cognisance of the budgetary resources of the municipality, and where applicable asset classes shall be prioritised in terms of their risk exposure and value.
- The MM shall advise Council on the insurance approach taken.

- In the event that the CFO is directed by Council to establish a self-insurance reserve, the CFO shall annually submit a report to the Council on any reinsurance cover which it is deemed necessary to procure for the municipality's self-insurance reserve.

12 POLICY FOR SAFEGUARDING

(a) Definitions and rules

The municipality applies controls and safeguards to ensure that assets are protected against improper use, loss, theft, malicious damage or accidental damage.

The existence of assets must be physically verified from time-to-time, and measures adopted to control their use, as follows:

- Above ground assets should be verified for existence and any changes in condition at regular intervals. These inspections should be formally recorded and signed off and, where possible, shall be worked into the routine maintenance inspections.

The municipality may allocate day-to-day duties relating to such control, verification and safekeeping to asset custodians, and record such in the asset register.

(b) Policy statement

An asset safeguarding plan shall be prepared for all assets indicating measures that are considered effective to ensure that all assets under control of the municipality are appropriately safeguarded from inappropriate use or loss, including the identification of asset custodians for all assets.

The impact of budgetary constraints on such measures shall be reported to Council. The existence, condition and location of these assets shall be verified annually (in line with the assessment of impairment).

(c) Responsibilities

- Each Executive Manager shall prepare and submit to the CFO, upon request, an annual asset safeguarding plan for the assets under the control of their respective departments, indicating the budget required. The CFO shall confirm the available budget, and in consultation with the respective Executive Managers, determine

the impact of any budget shortfall. The CFO shall report the impacts to the Municipal Manager for review, and advise Council. Each Executive Manager shall implement the safeguarding plan within the resources made available.

- Each Executive Manager shall report, within the time frame indicated by the CFO, the existence, condition, location and appropriate use of assets under the control of their respective departments at the review date.
- The Executive manager shall establish procedures for the effective management of movement of assets from one location to another (both internal and external), transfers of assets from one custodian to another, and reporting damage, in consultation with the CFO.
- The Executive manager shall enforce the application of the procedures for controlling the movement of assets as prescribed by the CFO.
- The Executive manager shall ensure that rented assets shall not be moved, unless by duly authorised staff.
- Malicious damage, theft, and break-ins must be reported to the Municipal Manager or delegated person within 48 hours of its occurrence or awareness by the respective The Executive manager
- The Municipal Manager must report criminal activities to the South African Police Service.

13 POLICY FOR LIFE-CYCLE MANAGEMENT OF IMMOVABLE PPE ASSETS

(a) Definitions and rules

Service delivery

Immovable PPE assets (such as infrastructure and community facilities) are the means by which the municipality delivers a range of essential municipal services. Consequently, the management of such assets is critical to meeting the strategic objectives of the municipality and in measuring its performance.

Asset management

The goal of asset management of immovable PPE is to meet a required level of service, in the most cost-effective manner, through the management of assets for present and future customers.

The core principles are:

- taking a life-cycle approach;
- developing cost-effective management strategies for the long-term;
- providing a defined level of service and monitoring performance;
- understanding and meeting the impact of growth through demand management and infrastructure investment;
- managing risks associated with asset failures;
- sustainable use of physical resources; and
- continuous improvement in the immovable PPE asset management practices.

(b) Policy statement

The municipality shall provide municipal services for which the municipality is responsible, at an appropriate level, and in a transparent, accountable and sustainable manner, in pursuit of legislative requirements, SANS 55001: Asset Management - Management Systems – Requirements, and in support of its strategic objectives, according to the following core principles:

Effective governance

The municipality shall strive to apply effective governance systems to provide for consistent asset management and maintenance planning in adherence to and compliance with all applicable legislation to ensure that asset management is conducted properly, and municipal services are provided as expected.

To this end, the municipality shall:

- continue to adhere to all constitutional, safety, health, systems, financial and asset-related legislation;
- regularly review updates and amendments to the above legislation;
- review and update its current policies and by-laws to ensure compliance with the requirements of prevailing legislation; and
- effectively apply legislation for the benefit of the community.

Sustainable service delivery

The municipality shall strive to provide to its customers services that are technically, environmentally and financially sustainable.

To this end, the municipality shall:

- identify a suite of levels and standards of service that conform with statutory requirements and rules for their application based on long-term affordability to the municipality;
- identify technical and functional performance criteria and measures, and establish a commensurate monitoring and evaluation system;
- identify current and future demand for services, and demand management strategies;
- set time-based targets for service delivery that reflect the need to newly construct, upgrade, renew, and dispose infrastructure assets, where applicable in line with national targets;
- apply a risk management process to identify service delivery risks at asset level and appropriate responses;

- prepare and adopt a maintenance strategy and plan to support the achievement of the required performance;
- allocate budgets based on long-term financial forecasts that take cognisance of the full life-cycle needs of existing and future infrastructure assets and the risks to achieving the adopted performance targets;
- strive for alignment of the financial statements with the actual service delivery potential of the infrastructure assets; and
- implement its tariff and credit control and debt collection policies to sustain and protect the affordability of services by the community.

Social and economic development

The municipality shall strive to promote social and economic development in its municipal area by means of delivering municipal services in a manner that meet the needs of the various customer user-groups in the community.

To this end, the municipality shall:

- regularly review its understanding of customer needs and expectations through effective consultation processes covering all service areas;
- implement changes to services in response to changing customer needs and expectations where appropriate;
- foster the appropriate use of services through the provision of clear and appropriate information;
- ensure services are managed to deliver the agreed levels and standards; and
- create job opportunities and promote skills development in support of the national EPWP.

Custodianship

The municipality shall strive to be a responsible custodian and guardian of the community's assets for current and future generations.

To this end, the municipality shall:

- establish a spatial development framework that takes cognisance of the affordability to the municipality of various development scenarios;
- establish appropriate development control measures including community information;
- cultivate an attitude of responsible utilisation and maintenance of its assets, in partnership with the community;
- ensure that heritage resources are identified and protected; and
- ensure that a long-term view is taken into account in infrastructure asset management decisions.

Transparency

The municipality shall strive to manage its infrastructure assets in a manner that is transparent to all its customers, both now and in the future.

To this end, the municipality shall:

- develop and maintain a culture of regular consultation with the community with regard to its management of infrastructure in support of service delivery;
- clearly communicate its service delivery plan and actual performance through its Service Delivery and Budget Implementation Plan (SDBIP);
- avail immovable PPE asset management information on a ward basis; and
- continuously develop the skills of councillors and officials to effectively communicate with the community with regard to service levels and standards.

Cost-effectiveness and efficiency

The municipality shall strive to manage its infrastructure assets in an efficient and effective manner.

To this end, the municipality shall:

- assess life-cycle options for proposed new infrastructure in line with the Supply Chain Management Policy;
- regularly review the actual extent, nature, utilisation, criticality, performance and condition of infrastructure assets to optimise planning and implementation works;

- assess and implement the most appropriate maintenance of infrastructure assets to achieve the required network performance standards and to achieve the expected useful life of infrastructure assets;
- continue to secure and optimally utilise governmental grants in support of the provision of free basic services;
- implement new and upgrading construction projects to maximise the utilisation of budgeted funds;
- ensure the proper utilisation and maintenance of existing assets subject to availability of resources;
- establish and implement demand management plans;
- timeously renew infrastructure assets based on capacity, performance, risk exposure, and cost;
- timeously dispose of infrastructure assets that are no longer in use;
- review management and delivery capacity, and procure external support as necessary;
- establish documented processes, systems and data to support effective life-cycle infrastructure asset management;
- strive to establish a staff contingent with the required skills and capacity, and procure external support as necessary; and
- conduct regular and independent assessments to support continuous improvement of infrastructure asset management practice.

(c) Responsibilities

- Upon instruction from Council, the Municipal Manager shall establish an Asset Management Steering Committee to meet regularly and to take measures to effectively implement this policy, and to report to Council on progress made at a frequency indicated by Council.

- On adoption of the policy, and in consultation with the Executive Manager and CFO, the MM shall determine a program for implementation of the following:
  - develop, and update at least every 3 years thereafter, an Asset Management Plan (AMP) for each service involving immovable PPE that

shall assess levels and standards of service, future demand, risk, determine a lifecycle plan for a minimum 10-year planning horizon, and identify management practice improvement needs (3 year horizon). The AMPs will be submitted through the Municipal Manager to Council for adoption. AMPs shall be used to inform the preparation of a Comprehensive Municipal Infrastructure Plan and budgets through the IDP process.

- determine grading scales for the measurement of asset condition, performance, cost-of–operation, and utilisation for that are common and applicable to all services. Where necessary, the Executive Managers shall interpret the grading scales for the immovable PPE assets under their control. Executive Managers shall determine the grading of all immovable PPE assets under their control at a level of accuracy considered appropriate to the municipality's resources, at least every 5 years.
- review at least every 3 years thereafter, an Operations and Maintenance Strategy and Plan, and submit such, through the Municipal Manager, to Council for adoption. The municipality shall engage contractors when necessary to support in the implementation of maintenance actions and adopt a system that assists in managing such maintenance.
- determine detailed service performance measures (differentiated, where applicable for identified customer groups), and submit such, through the Municipal Manager, to Council for adoption and inclusion in the Services Delivery and Budget Implementation Plan. Executive Managers shall establish a monitoring regime, and report actual performance each financial year.
- establish procedures to ensure that legislative requirements regarding the management of immovable PPE assets, including but not limited to health and safety, and environmental protection, are documented and advised to Executive Managers. Executive Managers shall address legislative needs in their strategies and plans, and shall enforce implementation.

14 POLICY IMPLEMENTATION

Detailed procedures shall be prepared and adopted by the Municipal Manager, in consultation with the CFO and Executive Managers, to give effect to this policy.

15 ANNEXURE A: IMMOVABLE AND MOVABLE ASSET HIERARCHY

The following accounting sub-groups, asset class and asset group types shall be used at the highest level of the classification structure for immovable assets:

Table 1 - Accounting sub-groups, sub-categories and asset group types

Immovable assets

Accounting Sub-group / Asset Category	Asset Class / Asset Sub-Category	Group / Asset Group Type
Building Property	Buildings (incl land)	Depots/ workshops/stores
		Offices and precincts
	Housing (incl land)	Staff housing
		Social Housing
Community Property	Community Facilities (including land)	Care Centres
		Cemeteries / Crematoria
		Clinics
		External Facilities
		Halls and Centres
		Transfer stations
		Landfill site
		Libraries
		Markets / Stalls/LED facilities
		Parks
		Public open space
		Public ablution facilities
		Fire / Ambulance stations
		Taxi Ranks / Bus Terminals
	Sport & Recreation Facilities (incl land)	Sports Centre

Accounting Sub-group / Asset Category	Asset Class / Asset Sub-Category	Group / Asset Group Type
Infrastructure Assets	Electricity Network	Electricity Network Land
		HV Network
		LV Network
		MV Network
	Roads and Storm-water	Road Furniture
		Road Structures
		Roads
		Roads and Stormwater Network Land
		Stormwater
	Sanitation Network	Outfall sewers
		Pump Stations
		Reticulation
		Sanitation Network Land
		Toilet facilities
		Waste water treatment works (WWTW)
	Water Supply Network	Bulk Mains
		Distribution
		Pump Stations
		Reservoirs
		Water Supply Network Land
	Capital spares	Capital spares
Intangible Assets	Servitudes	Electricity Network
		Sanitation Network
		Storm-water network
		Water Network
Investment Property	Investment Property	Improved Land
		Unimproved Land

Movable assets

Asset Class	Asset Group Type	Asset Type
Computer Equipment	Computer Equipment	Hardware
Furniture and Office Equipment	Furniture and Fittings	Chair
		Filing
		Storage
		Desk
		Table
		Stand
		Bins and Containers
		Hanger
		Trolley
	Office Equipment	Appliance
		Machine
Machinery and Equipment	Plant and Equipment	Machinery
		Tools
Transport Assets	Motor Vehicle	Commercial Vehicle
		Passenger Vehicle
		Specialised Vehicle
Heritage Assets	Heritage Assets	Paintings and Artworks
		Municipal Jewellery
		Other Antiques and Collections
		Sculptures
Intangible Assets	Intangible Assets	Software

ANNEXURE B: ASSET CATEGORY AND CLASS DESCRIPTION - EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF MOVABLE ASSETS

Asset Class	Asset Group Type	Asset Type	Component type	EUL (years)	Residual Value
Computer Equipment	Computer Equipment	Hardware	CPU	3-7	0%
			Monitor	3-7	0%
			Laptop	3-7	0%
			Server	3-7	0%
			Switch	3-7	0%
Furniture and Office Equipment	Furniture and Fittings	Chair	Visitors Chair	3-18	0%
			Executive Chair	3-18	0%
			Stackable Chair	3-18	0%
			Typist Chair	3-18	0%
			Rickstaker	3-18	0%
			Couch	3-18	0%
			Dinning Chair	3-18	0%
		Filing	Cupboard	3-18	0%
			Bookcase	3-18	0%
			Filing Cabinet	3-18	0%
			Pedenza	3-18	0%
			Mobile Pedestal	3-18	0%
			Credenza	3-18	0%
		Storage	Locker	3-18	0%
			Safe	3-18	0%
		Desk	Single Fitted Pedestal	3-18	0%
			Double Fitted Pedestal	3-18	0%
			Management Desk	3-18	0%
			L Shape Desk	3-18	0%
		Table	Boardroom Table	3-18	0%
			Kitchen Table	3-18	0%
			Coffee Table	3-18	0%
			Side Table	3-18	0%
			Learner Table	3-18	0%
		Stand	Computer Stand	3-18	0%
			Printer Stand	3-18	0%
		Bins and Containers	Refuse bin	5-14	0%
			Bulk containers	5-10	0%
		Hanger	Coat Hanger	3-18	0%
		Trolley	Tea Trolley	3-18	0%
			Book Trolley	3-18	0%
			Heavy Duty Trolley	3-18	0%

Asset Class	Asset Group Type	Asset Type	Component type	EUL (years)	Residual Value
	Office Equipment	Appliance	Television	3-7	0%
			Microwave	3-7	0%
			Fridge	3-7	0%
			Vaccum Cleaner	3-7	0%
			Urn	3-7	0%
			Heater	3-7	0%
			Fan	3-7	0%
			VCR	3-7	0%
		Machine	Photostat	5-10	0%
			Printer	5-10	0%
			Shredder	5-10	0%
			Scanner	5-10	0%
			Laminator	5-10	0%
			Money Counter	5-10	0%
			Guillotine	5-10	0%
			Projector	5-10	0%
			Receipt Printer	5-10	0%
Machinery and Equipment	Plant and Equipment	Machinery	Lawnmower	3-19	0%
			Compressor	3-19	0%
			Chainsaw	3-19	0%
			Brushcutter	3-19	0%
			Fire Arm	3-19	0%
		Tools	Skip	3-19	0%
			Ladder	3-19	0%
			General Tools	3-19	0%
Transport Assets	Motor Vehicle	Commercial Vehicle	Truck	5-20	17%
		Passenger Vehicle	Sedan	5-20	17%
			Hatch	5-20	17%
			Motor Bike	5-20	17%
			SUV	5-20	17%
			LDV	5-20	17%
			Bus	5-20	17%
			Mini Bus	5-20	17%
		Specialised Vehicle	Tractor	5-20	17%
			TLB	5-20	17%
			Grader	5-20	17%
			Ambulance	5-20	17%
			Crane	5-20	17%
			Buldozer	5-20	17%
			Fire Engine	5-20	17%
Heritage Assets	Heritage Assets	Paitings and Artworks	Paitings and Artworks	None	0%

Asset Class	Asset Group Type	Asset Type	Component type	EUL (years)	Residual Value
		Municipal Jewelery	Municipal Jewelery	None	0%
		Other Antiques and Collections	Other Antiques and Collections	None	0%
		Scuptures	Scuptures	None	0%
Intangible Assets	Intangible Assets	Software	Computer Software	3-5	0%

16 ANNEXURE C: ASSET AND COMPONENT TYPE - EXPECTED USEFUL LIVES AND RESIDUAL VALUES OF IMMOVABLE ASSETS

Asset type	Component type	Descriptor Type	EUL(Years)	Residual Value (%)
Building	Air conditioning	Standard installation (wall or split units)	20	0%
	Building Structure - Roofs	flat concrete (170mm thick)	40	0%
		Sheet metal	30	0%
		Thatch	40	0%
		Tiled	40	0%
	Building Structure - Walls	Complete building (internal and external)	60	0%
		Face brick	60	0%
		Fibre cement board, timber frame, plaster board	60	0%
		Metal sheet , plaster board	60	0%
		Metal sheeting	60	0%
		Plastered brick	60	0%
		Semi-face brick	60	0%
	Electrical installation		30	0%
	Finishes fixtures & fittings	Civic centres, community halls, chambers	15	0%
		Clinics and day hospitals	15	0%
		General offices, libraries, etc	15	0%
		Stores, workshops, garages, depots	15	0%
	Fire protection	Extinguishers, hose reels only	20	0%
		Extinguishers, hose reels, limited sprinklers	20	0%
		standard installation	20	0%
	Floor	Elevated (concrete)	60	0%
		Surface bed	60	0%
	Lifts		30	0%
	Plumbing	standard installation	20	0%
	Security system	Security and access control	20	0%
		standard installation	20	0%
	Small building enclosure	Brick, block walls & concrete roof slab	50	0%
		Brick, block walls & other roof	50	0%

Asset type	Component type	Descriptor Type	EUL(Years)	Residual Value (%)
		Steel shed	20	0%
Civil Structure	Earth Structure		50	0%
	Earthfill dam wall		80	0%
	Erosion Protection	Rip Rap	20	0%
	Lining - landfill		50	0%
	Masonry structure	General	50	0%
		Manholes	50	0%
		Walls	50	0%
	RC Structure	Above ground structure	50	0%
		Below ground structure	50	0%
		Mass concrete	50	0%
		Shuttered RC eng structure	50	0%
		Shuttered RC eng structure - water retaining	50	0%
	Retaining wall		60	0%
	Tank	Galvanised steel panel	30	0%
		Plastic	15	0%
Communal sanitation	Chemical Toilet		10	0%
Communal Standpipe	Communal standpipe - Pedestal		10	0%
	Communal standpipe - Tap		5	0%
Drainage	Channel	Lined	50	0%
		Unlined	5	0%
	Culvert		60	0%
	Kerb	Barrier kerb	50	0%
		Mountable kerb	50	0%
	Kerb Inlet		20	0%
	Sub-soil drain	Dewatering sub-soil drain	60	0%
Earthworks	Earthworks	Flat terrain	100	50%
		Mountainous terrain	100	50%
		Rolling terrain	100	50%
Electrical equipment	Auxiliary Equipment	Prepaid vending master stations	50	0%
	Motor	sewer	15	0%
		water	15	0%
	Telemetry	Advanced system	15	0%
		Intermediate system	15	0%
		Standard system	15	0%
External facilities	Carports	Shade net	7	0%
		Sheet iron roof	20	0%
	Commuter shelter		15	0%
	External furniture	3 seater concrete bench	20	0%

Asset type	Component type	Descriptor Type	EUL(Years)	Residual Value (%)
		Children's play equipment (jungle gym)	20	0%
		Concrete table (rectangular)	20	0%
		Medium planter pot (< 1m diameter)	20	0%
		Playground equipment	20	0%
		Steel rubbish bin	20	0%
		Water feature - park	20	0%
		Water feature (small)	20	0%
	External lighting	Bollard-type	30	0%
		Floodlights	30	0%
		Streetlight shared with LV network	45	0%
		Streetlight with its own network	45	0%
	Irrigation	Automatic sprinkler system	10	0%
	Landscaping	Flower beds, shrubs & trees	30	0%
		Lawns	30	0%
	Perimeter Protection	1.2m high diamond mesh	15	0%
		1.8m high brick wall	30	0%
		1.8m high diamond mesh	15	0%
		Concrete palisade fencing	30	0%
		Precast concrete wall	30	0%
		Steel palisade fencing	30	0%
	Footpath / Paving	Paved footpath / area	20	0%
HV Conductor	HV Overhead line	Chickadee	50	0%
		Hare	50	0%
HV Substation	Current transformer		45	0%
	HV Switchgear - Breakers	Out/D C/B	45	0%
	HV Transformer	Auto wind	50	0%
	Isolator		30	0%
Land	Improved Land		NA	0%
	Land		NA	0%
	Road reserve		NA	0%
LV Conductor	LV Cable	LV cable	60	0%
		Underground cable - domestic 2	60	0%
		Underground cable - domestic 3	60	0%
	LV Overhead Line	LV - Open Wire	45	0%

Asset type	Component type	Descriptor Type	EUL(Years)	Residual Value (%)
		LV aerial bundle conductor	45	0%
Mechanical equipment	Compressor	Workshop type - fixed	10	0%
	Doser	Doser - standard	15	0%
	Gearbox	Drive motor	15	0%
	Generator	Perkins/Volvo/John Deere	20	0%
	Pump - sewer		15	0%
	Pump - submersible		12	0%
	Pump - water		15	0%
	Weigh bridge	12m	15	0%
		8m	15	0%
Metal work	Fabricated Steel	Galvanised steel	20	0%
		Mild steel	20	0%
		Stainless steel	20	0%
Mun Service Connection	Electrical service connection	LV Overhead	50	0%
	Electricity Meter	Credit meter	20	0%
		Prepayment meters	20	0%
	Water Meter	Mechanical	10	0%
		Prepaid	10	0%
MV Conductor	MV Cable	MV Cu & Al cable	50	0%
	MV Overhead line	11kV ABC	50	0%
		Heavy conductor overhead line (>70 sqmm)	50	0%
		Light conductor overhead line (<70 sqmm)	50	0%
	Pilot cables		50	0%
MV Substation	Batteries	Rechargeable	3	0%
	Battery Charger		10	0%
	Control panel		30	0%
	Load control	Load control injection set	45	0%
	Transformer NEC		45	0%
MV Switchgear	MV Switchgear - Breakers	Feeder panel	45	0%
	Ring Main Unit	Ring Main Unit - 3 way	45	0%
		Ring Main Unit - 4 way	45	0%
MV Transformer	Mini-Sub	Mini-sub with ring main unit	45	0%
		Mini-Sub without ring main unit	45	0%
	MV Transformer	Enclosed transformer - ground level	45	0%
		Substation transformer	45	0%

Asset type	Component type	Descriptor Type	EUL(Years)	Residual Value (%)
	Pole Transformer	Pole transformer	45	0%
Pavement	Road structural layer		80	30%
	Road surface	Bituminous (Medium)	9	0%
		Bituminous (Thick)	12	0%
		Bituminous (Thin)	5	0%
		Concrete	20	0%
		Concrete block surface	20	0%
		Gravel	5	0%
Pipe - work	Pipe - sewer	AC (incl manholes)	40	0%
		Clay (incl manholes)	100	0%
		Concrete (incl manholes)	40	0%
		HDPE (incl manholes)	80	0%
		Steel (incl manholes)	80	0%
		uPVC (incl manholes)	60	0%
	Pipe - stormwater	Concrete (excl manholes)	50	0%
	Pipe - water	AC (incl valves & hydrants, excl meters)	40	0%
		HDPE (incl valves & hydrants, excl meters)	80	0%
		Steel (incl valves & hydrants, excl meters)	80	0%
		unknown (assumed HDPE, incl valves & hydrants, excl meters)	80	0%
		unknown (assumed steel, incl valves & hydrants, excl meters)	80	0%
		unknown (assumed uPVC, incl valves & hydrants, excl meters)	60	0%
		uPVC (incl valves & hydrants, excl meters)	60	0%
	Valve	Air release	20	0%
		Butterfly	20	0%
		Non-return	20	0%
		Pressure Reducing	20	0%
		Resilient seal	20	0%
Public Lighting	High mast		45	0%
	Street Light	Streetlight shared with LV network	45	0%
		Streetlight with its own network	45	0%
Road Bridge	Road bridge abutments		100	0%
	Road bridge side barrier		60	0%

Asset type	Component type	Descriptor Type	EUL(Years)	Residual Value (%)
	Road bridge substructure		100	0%
	Road bridge superstructure		100	0%
Road furniture	Advertisement Signs		7	0%
	Bill boards		7	0%
	Guard rail	Steel	15	0%
	Road marking		5	0%
	Sign - general	Standard	20	0%
			20	0%
	Sign - regulatory	Large	7	0%
		Standard	7	0%
	Speed hump		20	0%
	Street rubbish bin		10	0%
	Traffic island		20	0%
	Traffic signal		15	0%
Servitude	Servitude		NA	0%
Sports facilities	Sports field	Netball / basketball	30	0%
		Rugby / soccer	30	0%
		Tennis court - floodlit	15	0%
		Tennis court - standard	15	0%
	Stadium	Open structure with stepped terraces	50	0%
	Swimming pool	10m x 5m	20	0%
		25m x 20m	20	0%
		Olympic	20	0%